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C O N F I D E N T I A L SECTION 01 OF 03 WARSAW 000148

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SUBJECT: U.S.-POLAND STRATEGIC DIALOGUE II - ENERGY SECURITY

REF: WARSAW 0079

Classified By: DCM Ken Hillas, Reasons 1.5 b and d

1. (C) Begin Summary. Septel reports on security and defense issues discussed by EUR A/S Dan Fried and ASD/ISP Peter Flory at the Third U.S.-Polish Strategic Dialogue (SD) January 25 in Warsaw and provides a list of the principal U.S. and Polish participants. This cable reports on the Energy Security session of the SD. Energy Security was also a dominant theme in meetings with senior GOP officials outside of the SD. The negotiation of a new European treaty on energy security with an Article V-like commitment to joint energy security was explained by the Poles. They requested U.S. assistance in finding a "coalition of the willing" to join the treaty. EUR A/S Fried agreed to include energy security as an important issue in the U.S.-Poland strategic dialogue, but demurred on the "treaty" proposal. Poland discussed plans to diversify energy sources including the construction of a dedicated gas pipeline from Norway and an LNG port on the Baltic. Poland would also like to join the International Energy Agency but is finding establishment of required stockpiles too costly. A/S Fried suggested that TDA could assist Poland with feasibility studies of an LNG port and methane-to-markets project.
End Summary.

Polish Views on Energy Security

2. (C) Septel reports on security and defense issues discussed by EUR A/S Dan Fried and ASD/ISP Peter Flory at the Third U.S.-Polish Strategic Dialogue (SD) January 25 in Warsaw and provides a list of the principal U.S. and Polish participants. This cable will cover energy security issues. Secretary of State in the Ministry of Economy Piotr Naimski

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told EUR A/S Fried and the U.S. delegation to the U.S.-Poland Strategic Dialogue that Poland sees energy security in a wide sense. Naimski added that the GOP started a project to diversify its energy sources before Russia cut gas supplies to Ukraine. That crisis showed the wider European population that energy stability is a hot issue. The GOP is convinced that Russia is not a reliable energy supplier because: Russia reduced energy supplies to Ukraine for political reasons; Russia diminished supply to Europe because of the bad weather - apparently surprised by the winter; and gas pipelines were blown up near Georgia. Poland is almost totally dependant on Russian resources, explained Naimski, 97% of oil consumed by Poland and 98% of imported gas (two-thirds of total gas consumption) is from Russian and other Former Soviet Union countries. Poland must diversify, which means finding other sources than those existing as well as securing alternative transportation routes. Poland understands that energy security is a different issue in Warsaw and Budapest than in Madrid, Berlin or Lisbon. For those countries, buying gas from Gazprom is adding to diversification, while for Poland and Hungary, buying additional gas from Gazprom is deepening dependency on Russia. Poland would like solidarity and compromise on the EU level.

Poland's Diversification Plans

3. (C) Last week, Naimski went to Oslo for discussions with the Ministry of Energy and Oil. The Norwegians are willing to discuss constructing a dedicated gas pipeline to Poland and will have 120 BCM of gas available to sell in 2010 (an increase of 40 BCM from the current 80 BCM). Poland is also considering an LNG terminal on the Baltic coast. Diversifying crude oil purchases is easier than gas because technically Poland can receive supplies in its Baltic ports. Poland would like access to new fields being developed by Western (especially U.S.) companies. It would also like cooperation between Polish refineries and U.S. commercial players.

Poland's New Initiative on Energy Security

14. (C) The GOP made public on January 25 a new project for cooperation in energy security. Poland would like to discuss and negotiate an agreement for energy security that would be open to all EU and NATO members. Naimski stated that the specifics need to be discussed, but Poland would like to include a commitment similar to NATO Article V that would ensure each member's energy security. Poland knows this will be difficult and will require technical discussions but it must be discussed as a universal idea. Madrid and Lisbon need to understand energy security as well as Budapest and Washington, he said. For example, Portugal must understand that energy security means more than buying additional supply from North Africa, because such an agreement will help them too.

Energy Security and Ukraine-Russia

15. (C) A/S Fried agreed to call energy security a major issue in the U.S.-Poland bilateral and U.S.-European dialogue and raise the issue at NATO and with the EU. He stated that energy security is the most important issue that he and A/S Flory discussed during their trip and that the U.S. government is seized by the issue. The U.S. position on the Russian shutoff of Ukrainian gas was best stated by Secretary Rice. We regard the Russian decision to shut off gas as political pressure on Ukraine. However, Ukraine should no longer count on subsidized gas. The U.S. believes gas sold in Ukraine should be sold at world prices after a transition period and that a mixture of Russian and Turkmen gas is acceptable. But, other provisions of the arrangement are less comfortable. Most troubling is that the supply of all gas to and through the Ukraine is now in the hands of Rosukrenergo (RUE), a suspect trading group with ties to organized crime, no assets, and no obvious value added. The USG told the Ukraine that we sympathize with their reasons for concluding an agreement quickly, but that we can not support REU's role. A/S Fried stated that it's unclear what the government of Ukraine will do. The framework was supposed to be turned into an agreement today (January 25) and he had no sense that they were prepared to reopen the issue.

16. (C) The U.S. would like Ukraine to have more transparency in its energy sector as lack of transparency is an invitation to corruption. The U.S. told the Ukrainian government that it is not alone in dealing with Russia, but that the U.S. and European allies, will support them. Fried noted that in a meeting with EU Political Directors in Alpbach, he had expressed concern that Europe's energy security is now in the hands of a company with criminal ties. President Yushchenko told A/S Fried that he is interested in nuclear capacity. Unfortunately, Yushchenko also stated that he is interested in uranium enrichment, which the U.S. is not enthusiastic about. However, the U.S. is willing to discuss cooperation on nuclear issues with Ukraine.

17. (C) The U.S. believes all governments must look at gas alternatives, emphasized A/S Fried. As a rule, diversification of energy sources takes time. Russia will and should be a major supplier to Europe. But, there is no reason that all Central Asian gas should go through Gazprom, be bought at below market prices, then sold at prices five times higher. The U.S. began talking to Central Asian countries at President Nazarbayev's inauguration, and discussed general gas supply issues with Kazakhstan and later President Niyazov of Turkmenistan. The U.S. also encouraged Azerbaijan to help Georgia. We are encouraging Russia to behave responsibly. Gazprom is repairing the pipes that supply Georgia, and is supplying gas to Georgia through Azerbaijan. This appears to be an example of physical rather than political problems with gas supply. Nevertheless, Europe, especially Germany, has woken up to the problem of dependency on Russia. We hope that the EU, and especially Germany, drew a lesson from recent events and will work on a strategy to avoid future occurrences. The U.S. will continue to discuss energy security in the EU and NATO. Tony Wayne was in the Ukraine with A/S Fried and is now in Brussels discussing the issue with EC energy experts.

Potential U.S. - Polish Cooperation

18. (C) Fried stated that a Baltic LNG port could have advantages for Poland and the U.S. will consider a TDA feasibility study if Poland is interested. A/S Fried will encourage TDA to work with Poland on such a study. The U.S. would also welcome Poland becoming a member of the International Energy Agency. In addition, the U.S. has technology to use methane gas from coal mines that it can share with Poland if it is interested. EB/ESC Garverick summarized U.S. analysis of the international energy situation. He noted that the IEA has a crucial role in talks between the U.S. and EU and encouraged Poland to accelerate its membership. It's important that Poland and other Central European countries have a seat at the table during IEA discussions. During the Russian Presidency of the G-8,

energy security will be discussed, including during a meeting of Energy Ministers in March. The U.S. has a Coal-Bed Methane project run by the EPA that Poland could participate in that includes Russia and Ukraine. The USG would like Poland to participate on the steering committee and in a symposium in May. The U.S. believes LNG is a good opportunity for Poland, but must be market based. USTDA could assist Poland with feasibility studies for an LNG port and coal bed methane projects.

Storage Capacity a Barrier to IEA Membership

9. (C) Deputy Minister Naimski explained that Poland would like to join the IEA as soon as possible but has difficulty meeting the storage criteria and must amend some laws. Changing the laws is easy; increasing storage capacity is extremely costly. He asked if the IEA would consider allowing Poland to join while working on its storage capacity.

A Coalition of the Willing on Energy Security

10. (C) Naimski asked if the U.S. had other countries in mind for a dialogue on energy security. Chancellor Merkel indicated during her recent trip to the U.S. that she is interested in approaching the issue in a new way. The United Kingdom also understands that this is a strategic issue. A core group of like minded countries would likely include the U.S., Poland, Germany, The U.K., the Baltics, the Central European countries, and the Scandinavians. If Norway is interested, that would be good. The Dutch are interested in energy security as an abstract concept, although unaffected by recent events. Turkey is generally interested in energy security, and especially pipelines that would cross Turkey into Europe. The U.S. will stay in close contact with Ukraine and will continue to press the government there to open its energy sector to international investment.

11. (C) Naimski responded that the GOP is staying in touch with German Minister of Energy Adamowicz. The GOP and German governments started a consultation group. The GOP informed the Germans that it does not need gas from the Northern Baltic pipeline but deeper cooperation on broader energy issues. MFA North America's Director Szlajfer requested that energy security be raised at NATO. A/S Fried stated that he would discuss the issue of NATO on January 31. DAS Pekala thanked the Poles for their regional leadership on the issue. Naimski added that he is traveling to Budapest Friday January 27 for a meeting with the Visegrad 4, Austria (as Austria, not as EU President), Slovenia, Romania, and Croatia. He will instruct the Polish Ambassador to NATO to discuss energy security with these and other friendly countries.

12. (U) A/S Fried cleared this cable.
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